

**Frequently Asked Questions (FAQ)
about SBA's proposal
to restructure small business size standards**

Q. What did SBA propose?

- A.** SBA proposed to replace all size standards based on monetary values (mostly annual receipts) with new size standards based on number of employees. This change would apply only to non-agricultural size standards.

Q. Is there more to SBA's proposal than that?

- A.** Yes. SBA also proposed to change the size standards for SBA's Surety Bond Guaranty Program, Petroleum refiners, Tire manufacturers, the Sale or lease of Government property, and for nonmanufacturers. You must read the proposed rule for details on these changes and why SBA believes that they should be changed. The following table outlines those proposed changes:

The size standard for	is	SBA proposed to change it to
Surety Bonds	\$6 million for construction and services contractors.	Have the applicant for an SBA guaranteed surety bond meet the size standard for its industry.
Petroleum Refiners	1,500 employees [and 125,000 barrels per calendar day (bpcd) for Federal procurement].	Extend the 125,000 bpcd component to all Federal programs that use SBA's small business size standards.
Tire manufacturers	This size standard includes a special size standard based on market share, and applies to Federal Government procurement programs only.	Eliminate the special size standard for Federal procurement, and use 1,000 employees only.
Sale or lease of Government property	\$6 million.	50 employees.
Purchase of Government-owned Special Salvage Timber	25 employees.	50 employees.
Leasing of Government land for coal mining	250 employees.	300 employees.
Stockpile purchases	\$48.5 million.	400 employees.
Nonmanufacturers	500 employees (with other conditions) for procurement of supplies.	100 employees, the same as for all other wholesalers.

Q. Why does SBA want to revise small business size standards?

- A.** Over the years SBA has received several suggestions that it consider improving size standards. Suggestions were often critical, stating that size standards were too complex and unfair. Too often, different measures are used to determine if a business is small, depending on its different activities. This revision will simplify size standards and make them easier to understand and use.

If SBA adopts this proposal, there will then be

- a single size measure (employees);
- only 10 size standard levels instead of the current 37;
- standards that are not affected by inflation; and;
- most small businesses would qualify as small under a minimum size standard of 50 employees.

Q. Does SBA think that this restructuring will solve some of these problems?

- A.** Yes. If not all of them, certainly many. A single measure will eliminate the problems some companies have when they operate in different industries with differently based size standards. Information technology companies are good examples. They often provide both hardware and computer services. But furnishing computer hardware has an employee based standard, and providing computer services has an annual receipts based standard. Under the present structure, a company might have to meet a receipts based standard for one type of contract but an employee based standard for another. SBA believes that there should be a more consistent way to measure the size of a business.

Q. Any other changes?

- A.** For a small number of industries, SBA also proposed a maximum annual receipts cap. That is, a concern would have to meet both the employee and the annual receipts components to qualify as a small business.

Q. What about those industries for which SBA proposed the dual component size standards – those with both number of employees and annual receipts that they have to meet to qualify as small? Why did SBA propose this?

- A.** Industries for which SBA proposed size standards with two components commonly undertake and complete contracts by subcontracting a substantial amount of their work. The employees of their subcontractors are not counted when determining the contractor's size. Therefore, without an additional annual receipts cap for those industries, companies could become unacceptably large compared to other small businesses in those same industries, because of their extensive use of subcontractors.

Q. But won't having a receipts cap in addition to the employee size standard make size standards less simple and more complex?

A. Companies that meet the employee standards will likely meet the receipts cap, if they operate within typical industry practices. In fact, the proposed annual receipts caps for those industries are equal to or higher than the current receipts based size standards for those industries. SBA believes this additional feature for a very limited number of industries is still necessary to protect small businesses from unfair competition in Federal Government procurement programs.

Q. How many size standard levels are there now? And to how many industries do they apply?

A. There are 37 small business size standard levels, and they apply to 1,151 industries and to 11 special financial and Federal procurement programs. Thirty of them are based on annual receipts, five on number of employees, and two on other measures. There are some receipts based size standards that only apply to one or two industries.

Q. How many different size standard levels will there be if SBA adopts this rule?

A. If SBA adopts this proposed rule, there will only be 10 different small business size standard levels, all based on number of employees (except for the size standards for agricultural enterprises). There will be far fewer standards, they will be less complex and they will measure the size of businesses more fairly than the current 37 do.

Q. Has SBA ever made a major revision like this to its size standards before?

A. Yes. In the late 1970s and early 1980s SBA replaced two sets of size standards – one for Federal procurement programs and the other for SBA's financial programs – with one set for all Federal Government programs, procurement and financial alike. Users of small business size standards received the change favorably and supported it as a needed simplification. SBA believes further simplification is needed.

Q. What about size standards that are already based on number of employees?

A. SBA did not propose to modify size standards that are already based on number of employees, except for the purchase of Government-owned Special Salvage Timber, the leasing of Government land for coal mining, and the nonmanufacturer size standard that applies to the Government's procurement of supplies.

Q. Current employee based size standards generally range from 100 to 1,500 employees. Will the new size standards be in the same range?

A. No. The employee based size standards that SBA proposed range from 50 to 1,500 employees.

Q. Will there be more or less small businesses under your proposal?

A. There will be approximately 1,100 more small businesses if SBA adopts the proposed rule. That is less than 0.03% of the businesses in the industries affected by the proposed changes. Some small businesses may no longer qualify as small, while other businesses may become eligible small businesses if these changes are adopted. SBA is not attempting to change any size standards that would affect the number of eligible small businesses, although that may appear to be the result in some cases. There will be a minimal number of changes, but basically the employee standards cover approximately the same number of companies as do the receipts standards. Generally, it works out like this:

If industries with size standards based on monetary amounts had size standards based on number of employees		
Number of businesses that would become small	Number of business that would no longer be small	Net Change
35,200 ±	34,100 ±	1,100 ±

Q. What about the effects of these changes on my business?

A. If you participate as small in Federal Government procurement or SBA's loan programs, you will most likely stay small under this change. SBA's goal is to simplify and consistently apply how small businesses are measured.

Q. Why use number of employees as the basis for size standards?

A. Employment tends to be a stable measure of business size. Furthermore, a company's number of employees is a widely accepted measure of its size. Companies generally have economic incentives to maintain their workforce as business fluctuates to avoid recruitment and training costs. Employment contributes to producing goods and services, and generally accounts for the largest portion of total costs.

Q. Just who are my employees? Are they only my full time people? Or my full time equivalents (FTEs)? What about my temporary and part time employees? How do I count my personnel to see if I am a small business?

A. Calculate the average number of persons employed for each pay period over your business' last 12 months. Everyone on the payroll must be included as an employee regardless of the number of hours they worked or whether they were

temporary or part time. If you have been in business for less than 12 months, then calculate the average for each pay period that you have been in business.

Q. What about the affects of inflation on size standards?

- A. Inflation does not directly affect size standards that are based on employees, or whether a business gains or loses eligibility as a small business. Similarly, rising costs unique to an industry, fueling price increases, do not directly affect employee based standards. Generally, changes to employment numbers are closely related to the real output level of goods and services. That is why SBA has only increased for inflation those size standards that have a monetary basis, not those based on number of employees. Adopting employee based size standards in place of those based on receipts will eliminate the need for SBA to make periodic adjustments for inflation.

Q. When will SBA start using these new size standards?

- A. First of all, SBA only proposed to use these size standards. SBA will evaluate all of the comments to the proposed rule first, before issuing any final rule. SBA expects that comments will involve both the general concept of the change and individual industries. SBA does not know how long it will take to evaluate the comments and conduct any additional analyses that could be necessary. When SBA issues a final rule, you will be able to read it on SBA's "[What's New in Size Standards](http://www.sba.gov/size/indexwhatsnew.html)" (<http://www.sba.gov/size/indexwhatsnew.html>) or on the Federal Government's "[Regulations.gov](http://www.regulations.gov)" Web site (<http://www.regulations.gov>).

Q. I just read the proposed rule and discovered that I will no longer be a small business. Will this rule "grandfather" me in as a small business, since I am one now but will not be if you adopt these new standards?

- A. No. SBA did not propose to "grandfather" in businesses that are now small but will not be small if the new size standards are adopted. It is important to point out, that SBA did not attempt to analyze each and every industry, with an eye toward revising size standards. SBA believes, as we said elsewhere, that there will be few businesses losing eligibility if they now participate in Federal procurement or SBA lending programs. If you believe that SBA proposed an inappropriate size standard for your industry, please comment on the rule. When you do so, please explain, with some supporting documentation, why a different size standard would be a better one or more correct for your industry. You will make a valuable contribution to our rulemaking action.

Remember: Your comments must reach SBA by May 18, 2004.

Q. Where can I find more information about this proposed rule?

A. Please read the proposed rule itself. It has more specific information, as well as in-depth discussions, about the issues raised in these FAQ. The proposed rule is on SBA's "[What's New in Size Standards](http://www.sba.gov/size/indexwhatsnew.html#restructurePR)" (<http://www.sba.gov/size/indexwhatsnew.html#restructurePR>) and on the Federal Government's "[Regulations.gov](http://www.regulations.gov)" Web site (<http://www.regulations.gov>). If you still have questions, please [email](mailto:restructure.sizestandards@sba.gov) SBA's Office of Size Standards at restructure.sizestandards@sba.gov or call 202.205.6618.